Banks Prepare for the Worst as Europe's Downward Spiral Continues

While European politicians continue to insist, as politicians will, that Europe's problems will be resolved and that the eurozone will be kept intact at any cost, the world's financial and banking elites are apparently coming to a different conclusion. Banks and banking regulators in Asia, the United Kingdom, and North America are [busily drawing up contingency plans](#) for a eurozone breakup while trying to reduce their exposure to European debt. "We cannot be, and are not, complacent on this front," declared Andrew Bailey, a regulator at Britain's Financial Services Authority, last week. "We must not ignore the prospect of a disorderly departure of some countries from the euro zone."

According to the *New York Times*' Liz Alderman, [writing on November 25](#):

> Banks including Merrill Lynch, Barclays Capital and Nomura issued a cascade of reports this week examining the likelihood of a breakup of the euro zone. "The euro zone financial crisis has entered a far more dangerous phase," analysts at Nomura wrote on Friday. Unless the European Central Bank steps in to help where politicians have failed, "a euro breakup now appears probable rather than possible," the bank said.
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> Major British financial institutions, like the Royal Bank of Scotland, are drawing up contingency plans in case the unthinkable veers toward reality, bank supervisors said Thursday. United States regulators have been pushing American banks like Citigroup and others to reduce their exposure to the euro zone. In Asia, authorities in Hong Kong have stepped up their monitoring of the international exposure of foreign and local banks in light of the European crisis.

Within Europe, interestingly, the situation is different. So strong is the conviction that the eurozone will remain intact — it was, after all, designed with no mechanism for any member to opt out — that European banks have no plans for any change in the status quo. "While in the United States there is clearly a view that Europe can break up, here, we believe Europe must remain as it is," one French banker told the *Times*. "So no one is saying, 'We need a fallback.'" Intesa Sanpaolo, Italy's second-largest bank, completely omitted a eurozone breakup as a possibility in its latest two-year strategic plan, drawn up last March. "Even though the situation has evolved, we haven't revised our scenario to take that into consideration," Andrea Beltratti, a top bank official, told the *Times*.

The state of denial is endemic across Europe, with the likes of German Chancellor Angela Merkel flatly denying that the euro will be jettisoned — even though such an outcome would probably be beneficial to Germany. Free of the euro obligations to the weaker economies of Club Med, an emancipated Germany with a reconstituted mark would probably see its economy soar relative to much of the rest of Europe, as would the Netherlands on the guilder and France on the franc. Europe’s heavily-indebted south, from Portugal to Greece, would probably be forced to default, with the wealthy north no longer under any obligation to bail them out.

The effort to keep the eurozone on life support is driven less by prudent economics than by political fanaticism, the pipe dream of a United States of Europe devised in the fires of World War II. But such an outcome has never been achieved except by military force. The Caesars did it, and so did Napoleon. But an economic union, as events are now teaching the world, is as fragile as a spring flower: vibrant as long as the sun shines, but unable to survive when the economic weather changes for the worse.